

# G30 Leadership Goals & Key Priorities



**The pathway to the future of global  
securities clearance and settlement**

## Introduction to the Group of Thirty (G30)

The Group of Thirty (G30) is a private, nonprofit, international body composed of senior representatives of the private and public sectors and academia. It aims to deepen understanding of international economic and financial issues, to explore the international implications of decisions taken in the public and private sectors, and to examine the choices available to market practitioners and policy makers. JPMorgan is a member of the G30.

The G30 recently commissioned a study to assess the current state of global securities clearance and settlement. The group's goal was to improve clearance and settlement by making recommendations to:

- increase efficiency,
- reduce the probability of systemic failure,
- lower cost, and
- reduce risk.

Many factors contributed to the need for improvement, including the rapid growth in cross-border trading, advances in technology and market shocks. Bill Harrison, JPMorgan Chase Chairman and CEO was a member of the G30 Executive Committee which sponsored the study that resulted in the recently issued G30 report *Global Clearance and Settlement: A Plan of Action*.

The most important aspect of the report is 20 recommendations to improve securities settlement. These new recommendations are the pathway for the future. They create a framework that will enable the automation of the securities transaction lifecycle – a critical path to be paved by improved international governance and a stronger, interoperable network from which risk reduction will be a natural by-product. Investor clients and the industry at-large will be major beneficiaries of these changes. JPMorgan is committed to leading the way and driving their implementation.

At JPMorgan, we created a firm-wide G30 committee of experts from areas engaging in securities clearance and settlement to ensure that we are speaking as one voice in terms of our understanding of the recommendations. Although all 20 recommendations are important for the industry, we identified and prioritized areas we believe will benefit our clients and the industry most, and will dramatically lower cost, reduce risk and improve oversight.

To that end, we have created this brochure as an aid in understanding the G30 recommendations and their advantage to clients, our firm and the industry. It is our hope that our leadership and the leadership of others will create a sense of urgency around this topic and that implementation may be achieved quickly.

We hope you find this brochure useful and join with us in promoting the importance of the G30 recommendations to the securities industry and the necessity of implementation.



## G30 Recommendations

### Where we are

- Inflated costs
- Significant operational risks
- Investor risk
- Manual handling
- Segmented processes, systems & markets
- Disparity in regulations
- Unequal access to markets
- Inconsistent regulatory oversight

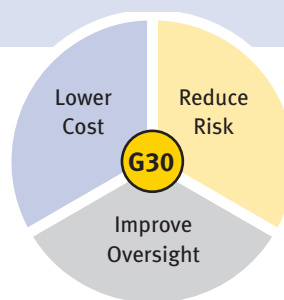
### Where we want to be

- Lower costs
- Reduced operational risk
- Reduced investor risk
- Straight-through processing (STP)
- Fully interoperable markets
- Harmonized and consistent regulations
- Fair access for market participants
- Uniform oversight and monitoring of all market participants

## Global Clearance and Settlement: A Plan of Action

As an industry group, the G30 has historically studied the development of global securities clearing and settlement arrangements and has put forth recommendations on reducing risk and inefficiency in market activities.

In 1989, the G30 made its nine original recommendations to improve securities clearance and settlement. Although the original recommendations have largely been implemented, today's global trading environment presents new challenges which require new solutions. In 2003, the G30 issued *Global Clearance and Settlement: A Plan of Action* to address these needs. The report contains 20 recommendations designed to substantially impact the future of the global securities marketplace. The report focuses on three key areas of interest to global investors:



creating a strengthened, interoperable global network, mitigating risk, and improving corporate governance.

JPMorgan, a longtime supporter of the G30, was an active participant in developing the committee's new report and supports the G30's final recommendations, which provided a roadmap for the future of clearance and settlement. The firm views the G30 recommendations as important drivers to ensuring the industry's success in implementing straight-through processing and enabling global investors to reach their business goals of efficient trade processing and settlement, while minimizing risk and fulfilling corporate governance responsibilities.

#### Other clearance and settlement initiatives

There are other market-specific industry initiatives that complement the G30 recommendations. This is the case with European markets where initiatives like The Giovannini Report, European System of Central Banks (ESCB), and The Committee of European Securities Regulators (CESR) have put forth recommendations to improve cross border clearance and settlement within the European Union. JPMorgan is extensively involved in these initiatives as well.

# JPMorgan Key Priorities



*As an innovator and leader within the securities industry — especially regarding industry initiatives that benefit our clients — JPMorgan fully supports all 20 G30 recommendations. To further that support, JPMorgan created an internal G30 committee to analyze the recommendations and identify key initiatives which would most quickly benefit the industry and our clients. The outcome of our review is a collective agreement across our G30 committee on how JPMorgan can actively champion the priorities with our firm, clients and market and industry participants. JPMorgan's priorities are those recommendations related to:*

- *the automation of the securities transaction life cycle,*
- *the expanded use of central counterparties,*
- *business continuity and legal certainty in order to reduce risk, and*
- *fair and consistent governance to assure the future success and growth of global markets.*

*JPMorgan's leadership in this important initiative is further highlighted through our participation as chair of the G30 Monitoring Committee—a group formed to ensure the successful implementation of the recommendations. Andrew Crockett, president of JPMorgan International and a member of the Group of Thirty, is chairman of this committee.*



# G30 Plan of Action

G30 GOALS	G30 RECOMMENDATIONS	JPMORGAN KEY PRIORITIES
Build a stronger interoperable securities settlement network	<ol style="list-style-type: none"> <li>① Eliminate paper and automate communication, data capture and enrichment.</li> <li>② Harmonize messaging standards and communication protocols.</li> <li>③ Develop and implement reference data standards.</li> <li>④ Synchronize between different clearing and settlement systems and associated payment and foreign exchange systems.</li> <li>⑤ Automate and standardize institutional trade matching.</li> <li>⑥ Expand the use of central counterparties.</li> <li>⑦ Permit securities lending and borrowing to expedite settlement.</li> <li>⑧ Automate and standardize asset servicing processes, including corporate actions, tax relief arrangements, and restrictions on foreign ownership.</li> </ol>	<p>Automating and standardizing the securities transaction value chain to achieve straight-through processing (STP) is critical to building a more efficient, stronger settlement network.</p> <p>Expanding the use of central counterparties for global securities clearance and settlements creates a more liquid, safer and efficient settlement network.</p>
Mitigate risk in securities settlement and clearance	<ol style="list-style-type: none"> <li>⑨ Ensure the financial integrity of providers of clearing and settlement services.</li> <li>⑩ Reinforce the risk management practices of users of clearing and settlement service providers.</li> <li>⑪ Ensure final, simultaneous transfer and availability of assets.</li> <li>⑫ Ensure effective business continuity and disaster recovery planning.</li> <li>⑬ Address the possibility of failure of a systemically important institution.</li> <li>⑭ Strengthen assessment of the enforceability of contracts.</li> <li>⑮ Advance legal certainty over rights to securities, cash or collateral.</li> <li>⑯ Recognize and support improved valuation methodologies and close-out netting arrangements.</li> </ol>	<p>Industry-wide enhancement of business continuity will ensure effective business resilience.</p> <p>Greater legal certainty and finality of securities transactions will reduce risk for investors.</p>
Improve governance of important entities which engage in securities settlement	<ol style="list-style-type: none"> <li>⑰ Ensure appointment of appropriately experienced and senior board members.</li> <li>⑱ Promote fair access to securities clearing and settlement networks and services.</li> <li>⑲ Ensure equitable and effective attention to stakeholder interest.</li> <li>⑳ Encourage consistent regulation and oversight of securities clearing and settlement service providers.</li> </ol>	<p>Fair and consistent governance and oversight will ensure the future success of global markets.</p>



# JPMorgan Plan of Action

Although our firm is working on all 20 recommendations, we are initially focusing our leadership efforts on the recommendations viewed as most critical to our business and the industry. Below are action plans for how we will champion our key priorities.

## Build a Stronger, Interoperable Global Securities Settlement Network

***Automation of the securities transaction value chain to achieve straight-through processing (STP) is critical to building a more efficient, stronger settlement network.***

Key initiatives that will improve STP across the transaction life cycle are: harmonizing message standards for securities transactions, standardizing securities reference data, and automating and standardizing corporate action and tax reclamation processing.

### Key Priorities:

- Champion, lobby and make investments in the key recognized messaging standards to automate the securities transaction lifecycle; this includes transaction initiation, trade execution, and pre- and post-settlement servicing.
- Champion the adoption of FIX as the messaging standard for transaction execution and ISO 15022 for settlement and post-trade processing.
- Support the development of single suppliers of highly accurate data for all major markets.
- Work with utilities and service providers to establish reference data standards.

***Expanding the use of central counterparties for global securities clearance and settlement will create a more liquid, safer, and efficient settlement network.***

Central Clearing Counterparties (CCPs) are increasingly important to the future development of safe and efficient clearance and settlement networks. With the proliferation of CCPs and the increasing consolidation of clearance and settlement utilities across global markets, the development of financially sound and appropriately governed central counterparties is critical.

### Key Priorities:

- Champion the establishment of central counterparties and develop best practices surrounding their structure and function.
- Partner with CCPs – exchanges, clearinghouses and industry groups – which view the implementation of best practices as a top priority.

## Mitigate Risk in Securities Settlement and Clearance

***Industry-wide enhancement of business continuity will ensure effective business resilience.***

As a major market participant and a systemically important institution in the financial services industry, JPMorgan is a strong proponent of increased business resilience through multiple and robust backup facilities and processes. Optimal industry resilience to disasters requires development, adoption, and evolution of tools, standards, and end-to-end testing techniques held across the industry.

### Key Priorities:

- Partner with systemically important institutions to implement sound recovery programs.
- Create and initiate standards that define and measure disruptions and appropriate contingency responses.
- Partner with peer institutions to implement best practice tools that will ensure industry-wide disaster recovery.
- Promote full end-to-end business continuity testing with market participants.

***Greater legal certainty and finality of securities transactions will reduce risk for investors.***

Market participants must be able to determine with certainty what laws define and govern their rights to securities in a clearing system and how to enforce them. They must also be able to ensure final simultaneous transfer and availability of assets.

### Key Priorities:

- Advocate for clear rules and best practices in the area of netting, enforceability of collateral rights, legal novation, finality, bankruptcy and ownership rights.
- Support a consistent and transparent legal framework within securities markets by actively participating in industry forums including ISDA, The Hague Convention, UNIDROIT and other industry groups.



## Improve Governance of Important Entities which Engage in Securities Settlement

*Fair and consistent governance and oversight will ensure the future health of global markets.*

Consistent formal and periodic regulatory oversight of clearance and settlement entities by public authorities will best assure an efficient, safe and interoperable network.

### Key Priorities:

- Lobby in support of uniform standard practices for regulatory oversight of clearance and settlement entities.
- Support regulatory changes that will ensure appropriate representation for all stakeholders of securities settlement systems.

## G30 Timeline

| 2003

| 2004

| 2005

| 2006 – 2010

### G30 Report – Global Clearance and Settlement: A Plan of Action

G30 Issues Recommendations

Education and Awareness

G30 Commissions Monitoring Committee

Industry Group Commitment

Industry Groups Sponsor Recommendations

Recommendations Implemented

### JPMorgan Leadership

G30 Education and Awareness

Staff

Clients

Market Participants

JPMorgan Chairs G30 Monitoring Committee

Internal Assessment

Understand Impact to Line of Businesses (LOBs)

Establish Priorities

Incorporate into Strategic Planning



For additional information about The Group of Thirty (G30) and JPMorgan's involvement and priorities contact Edward J. Neeck at 718-242-1482 or [edward.neeck@jpmorgan.com](mailto:edward.neeck@jpmorgan.com)